Wealth Markets and Commerce

Finance - Economics

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Statistics just published by the Federal Department of Labor Statistics show in a striking way the results of the Russian policy of financing the war by unlimited inflation. The unskilled laborer who got a wage of from 52 to 77 cents a day in July, 1914, received $4.12 in August, 1917. Skilled machinists who earned from 90 cents to $2 a day before the war were worth nearly $5 after three years of preposterous currency and credit inflation. The average advance in the wages of workers in eight trades approximated 400 per cent. But that is only part of the story, for commodity prices climbed to even more fantastic levels as Russian currency cheapened and confidence in it evaporated. Meat rose from 400 to nearly 800 per cent in price; clothing, 900 per cent; shoes, 1,700 per cent, and so on with everything from pleasure to housing. It was an impossible situation and a collapse was sooner or later inevitable, even if there had been no other contributing factors. It is from this view that we recommend the study of the figures, for they carry a lesson for this country the importance of which cannot be overestimated—a lesson that is clearly presented in an article in another column by one of America's foremost economists.

"Russia should afford an example—extreme, no doubt, but most illuminating—" says Professor Davenport, "of the dangers of financing war by methods of currency inflation. There was—there still is—no difficulty with Russia's resources, her margin of available surplus product to maintain war—though she probably attempted to make her armies overlarge for her powers of maintenance. But once her money was discredited, her medium of exchanges and of payment, all her resources became unavailable—and they remain so. For her to have borrowed through bonds marketed by bank inflations, as has this been possible in Russia, would have somewhat extended her period of endurance. But the limits are none the less inexorable. No financial policy can meet the endurance test that commits the blunder of piling up indebtedness or the blunder of pyramiding prices, or commits both blunders at once in the guise of bonds floated through bank inflations.

"Nor, in fact, is there any borrowing method that promises the utmost possible civil contribution to the burdens of war. Patriotic lending or high or low-interest lending or any lending at a rate of interest, no matter how high, that still leaves the option not to lend must fall short of transferring to the government all that the citizen can get along without."

There is, as Professor Davenport states, no limit to America's powers of endurance in the war. Industrial and economic exhaustion are impossible. But there is a limit to current income, and it is certain that we must adjust ourselves to that limit and rely not on credit inflation but on "production and self-denial." In no other way can the danger of financial disaster be averted. After sixteen months of participation in the war, the government is still relying on exhortation to save the labor and materials required for war, but everywhere there are evidences of extravagant spending; saving by one class is offset by the improvidence of another. But labor and materials must be saved, no matter what the political effects of compulsion may be. Drastic taxation on consumption is one way of bringing it about.

Money and Credit

Loans and discounts of the New York Clearing House banks decreased $31,333,000 during the last week, bringing the total to $4,515,418,000, according to the weekly statement made public yesterday. Moreover, the reserve of these banks in the Federal Reserve Bank dropped $10,804,000, indicating why it was necessary to call in loans. To meet the final payment on the Liberty bonds of the third issue on Thursday and withdrawals of government funds the banks found it necessary to call many demand loans on the Stock Exchange all of last week. United States deposits decreased from $522,310,000 to $442,949,000.

The Federal Reserve Bank of New York, in its weekly statement, reported an increase of some $30,000,000 in bills discounted and bought. The growth of this item resulted largely from the stringency of the money market, which made it necessary for member bankers in many cases to exercise the rediscount privileges to an enlarged extent. The aggregate of gold in the vaults of the bank and in the settlement fund decreased from $534,660,189 to $459,196,215 last week. The number of certificates of indebtedness bought from the banks with agreement that they would repurchase in fifteen days increased fourfold during the week.

Bank Acceptances.—Owing to the firm money market the demand for bank acceptances is somewhat lighter. Rates yesterday were as follows:

	Spot delivery: Per cent.	Thirty days. Per cent.	Sixty days. Per cent.	Ninety days. Per cent.
Eligible member banks		4⅛@4	4⅛@4¼	4⅛@4¼
Eligible non-member banks		4¼@4⅛	4¾@4⅛	4¾@4⅛
Ineligible bank bills		5¼@4	5¼@4¾	5¼@4¾

For delivery within thirty days:

	Per cent.
Eligible member banks	4½
Eligible non-member banks	4⅝
Ineligible bank bills	6

Discount Rates.—The following table gives the current rates of the twelve Federal Reserve banks on commercial paper on all periods up to ninety days:

	Within 15 days, including member banks' collateral notes	16 to 60 days' maturity	61 to 90 days' maturity
Boston	4	4¾	4¾
New York	4	4¾	4¾
Philadelphia	4	4¾	4¾
Cleveland	4¼	4¾	4¾
Richmond	4¾	5	5
Atlanta	4	4¾	5
Chicago	4	4¾	5
St. Louis	4	4¾	4¾
Minneapolis	4	4¾	5
Kansas City	4½	5¼	5¼
Dallas	4	4¾	5
San Francisco	4	4¾	4¾

Bank Clearings.—Bank clearings in Philadelphia were: Exchanges, $72,045,328; balances, $14,353,918.

Sub-Treasury.—The banks lost $240,000 to the Sub-Treasury yesterday.

Silver.—Bar silver in London was 48⅞d, unchanged; New York, 99⅝c, unchanged; Mexican dollars, 77c, unchanged.

London Money Rates.—LONDON, Aug. 17.—Money was unchanged at 3 per cent. Discount rates were: Short and three months' bills, 3 17-32 per cent. Gold premium at Lisbon remained 130.

The Dollar in Foreign Exchange

In a market that was otherwise relatively stable francs continued their steady upward movement during the last week. As a result of the efforts of the Allied Financial Committee to bring rates on Paris closer to par, which foreign exchange men say are being made, francs rose in the seven-day period from 5.67½ to 5.64½ for cables and from 5.68¼ to 5.65½ for checks.

Sterling exchange, which showed much strength a week ago, was easier all of last week and rates on neutral exchanges were consistently weaker. Bankers said that the great Allied successes on the Western battlefront were a factor in the movement of neutral rates. Pesetas moved downward again, in expectation of the official announcement of the progress of the negotiations that are being carried on to secure a loan for the United States in Spain to reduce the discount on the dollar there.

It was ascertained last week that an agreement had been reached between the United States and Bolivia to stabilize exchange. A $5,000,000 fund, which can be raised to $20,000,000, has been deposited in the name of the Bolivian Minister at Washington at the Federal Reserve Bank, and moneys due Bolivia in this country are to be paid at the Reserve Bank.

Canadian exchange remained steady at a discount of 1 31-32 last week and the prospects of narrowing the discount have lessened with the depreciation of the present wheat crop in the Dominion. In diagnosing the reason for the present exchange situation, Thomas White, Canadian Finance Minister, has recently made the following statement:

"Owing to many complex causes arising out of the war, and due partly to world-wide conditions, Canada's exchange with New York, which is the great exchange centre of America, has has been for some time past unfavorable. The rate against us has at times exceeded 2 per cent. It is to be pointed out that in this, with war conditions, there is nothing exceptional. Great Britain's exchange with the United States has for two or more years been at as high a discount, and exchange rates with neutral countries have, in the case both of Great Britain and the United States, been at times unfavorable to the rate of even 20 per cent, and this upon an immense volume of purchases. Adverse exchange is not an unmixed evil to a country at war. Economically speaking, it is the natural corrective of national extravagance and of unduly large outside investment of funds needed for war issues at home.

"If it costs 2 per cent to obtain New York funds there will be less importation of luxuries and other commodities we do not need and less buying by our people of outside securities offering high interest yields as against the rate of our war issues. An unduly high rate of exchange, however, penalizes the importer of necessary raw material and commodities actually needed by the public and, consequently, enhances the general high cost of living.

"Judicious interference is therefore justifiable to palliate or obviate its worse effects. To assist in adjusting the balance of our international accounts arrangements have been made which will, I think, be materially helpful and at least hold exchange within reasonable bounds. Orders placed in Canada for American war requirements, such Canadian issues as may be permitted in New York, prohibitions upon non-essential imports and other measures under way, together with greatly increased exports and other stabilizing financial expedients, will all contribute to this end."

If you calculate the cost of the dollar in terms of foreign money at par value—that is, if you were buying dollars with pounds, marks or francs—its value at the close of last week, as compared with a year ago, would be about as follows:

	—Cost of one dollar— Yesterday.	Year ago.
In English money	$1.02	$1.02
In French money	1.09	1.11
In Dutch money	.79	.94
In Swiss money	.78	.86
In Swedish money	.80	.80
In Russian money	3.85	2.37
In Italian money	1.69	1.40
In Spanish money	.72	.82

Closing rates yesterday compared with a week ago, follow:

(Quoted dollars to the pound.)

	Yesterday.	Week ago.
Sterling, demand	$4.7560	$4.76
Sterling, sixty days	4.72⅞	4.73⅛
Sterling, cables	4.7560	4.77
Sterling, ninety days	4.71¾	4.72
(Quoted units to the dollar.)		
Francs, checks	5.65½	5.68¼
Francs, cables	5.64½	5.67½
Lire, checks	7.50	7.90
Lire, cables	7.49	7.89
Swiss, checks	4.01½	3.96
Swiss, cables	3.99½	3.94
(Quoted cents to the unit.)		
Guilders, checks	.51⅜	.52¼
Guilders, cables	.51⅝	.52½
Rubles, checks	13.00	13.00
Spain, checks	24.65	26.10
Spain, cables	24.75	26.20
Sweden, checks	35.50	36.00
Sweden, cables	35.65	36.75
Denmark, checks	31.30	31.50
Denmark, cables	31.45	31.60
Norway, checks	31.50	31.75
Norway, cables	31.65	31.80
Argentina, checks	44.55	44.85
Argentina, cables	44.65	44.60
India, rupees, checks	37⅛	37.50
India, rupees, cables	37¼	37.75
India rupees, cables, Reserve Bank rate	37¼	35.73

Below is given the current exchange value of foreign money in dollars and cents, together with the intrinsic gold parity, as calculated by the United States Mint:

	Current exchange value.	Intrinsic value.
Pounds, sterling	$4.7560	$4.86⅝
Francs	0.17 5	0.19 3
Guilders	0.52	0.40.2
Rubles	0.13	0.51.2
Lire, checks	0.11 39	0.19 3
Crowns (Denmark)	0.3 40	0.26 8
Crowns (Sweden)	0.35 70	0.26 8

The above rates express the cost of foreign money in terms of the American dollar. You buy an English pound sterling at, say, $4.7560. The intrinsic parity is $4.86⅝ per pound. Thus you say either that pounds are at a discount or that dollars are at a premium, which is owing to the fact that in England the demand for dollars with which to settle accounts in this country is greater than the demand in this country for pounds with which to settle accounts in England.

Relevant Comment

May Start for Siberia This Fall.

Observers of conditions in Russia are fretting over the tardiness of Allied plans for the economic rehabilitation of the land of the former Czar. It has been pointed out that the Russian winter will soon prove a bar to effective aid, and it is already too late to make use of the Northern trade routes. There is reason to believe, however, that the American economic policy in regard to Russia is fast drawing to a focus, and an important statement on this subject may be forthcoming this week. Moreover, there are indications that the proposed Russian economic commission will be promptly named and may start moving to the emaciated Slavic country before the first of October. It is considered probable that part of the suggested commission will sit at Washington and part of it will go to Siberia and penetrate as far westward as practicable. The State Department, it is understood, has been taking a lead in devising plans to aid Russia with life's necessities, but the entire Cabinet has been vitally concerned with the matter.

Magnitude of Russian Problem

Representatives of Russian associations who have been consulted by the Administration in regard to economic aid for Russia say that the magnitude of the problem has been one of the prime causes of the delay. To effectively assist Russia would mean putting some 160,000,000 people on their feet again, or even the mere starting of Russians on the road to economic recovery looms up as a colossal task. But those who perceive the importance of Russia and Siberia as reservoirs of raw materials for which the nations of the world will have the direst need after the war regard the problem as one the Allied nations cannot afford to shirk. And then, too, the humanitarian side of the question has been strongly brought to the consideration of the Administration.

Little Has Been Shipped

Until the latter part of June, virtually no American goods were shipped to Russia from the time the Bolsheviki emerged from the realm of idle talking into control of the destinies of Europe's largest nation. For nearly six months the flow of supplies was cut off, and during the last two months, as far as known, only a relatively small amount of goods has been shipped there. Though the government is reported to have somewhat relaxed its ban on the shipment of goods to Russia in the last two months, no authoritative statement as to the amount of goods that has been released has been made. A representative of a Russian association estimated that the amount of goods bought and paid for in this country during the Kerensky regime which were never shipped from the United States, amounts to $80,000,000. It is pointed out in some quarters that this vast store of materials would make an excellent starting point for trade resumption with Russia, and much of it probably would. But, on the other hand, a great part of it is railroad equipment and machinery, which, though they will be needed eventually, are of secondary importance to such things as small tools, which are needed at once, competent observers say, to save the population from widespread famine and disaster.

Money Strain May Be Lessened.

The intention of the Treasury Department to resume the offering of 4 per cent certificates which may be used for the payment of the war profits and excess profits taxes provided for under the new tax bill is expected to relieve, for a period at least, the strain upon national banks due to the bi-weekly sale of Treasury certificates issued in anticipation of the fourth Liberty Loan. For this reason bankers predicted yesterday that there might be a somewhat easier tone to the local money market during the next few weeks. Figures made public at the Federal Reserve Bank showed total payments for this district on the third loan of $62,687,448 up to the close of business on Friday. The total due is $73,919,088. Reports from seventy-three banks have not yet been tabulated.

General Motors Active

Activity in General Motors has not thus far been materially curtailed by the ruling of the Stock Exchange clearing house committee that hereafter the common stock shall not be cleared under the direction of that body. Yesterday's dealings were unusually heavy, considering the high price at which the stock is selling. On a turnover of 2,800 shares the quotations rose from 154⅛ to 156¼, with the final at 156, a net advance of 2 points.

September Maturities

Corporate maturities for September, according to a compilation by Dow, Jones & Co., aggregate $47,203,790, compared with $43,826,560 in August and $50,729,963 in September, 1917. Included in the September maturities due and the outstanding issues are $31,697,000 of a majority of the issuing companies, it is declared, make it unnecessary for them to call on the War Finance Corporation for aid to any great extent. Railroad issues total $33,529,170, of which $15,000,000 consist of $15,000,000 Chicago & Western Indiana 6 per cent notes, due September 1. The company is now negotiating with the railroad administration for a plan to pay off these notes.

Boston Clearing House Protest

Opposition from bankers in other cities to the recent ruling of the New York Clearing House Committee placing a collection charge of one-tenth of 1 per cent on out-of-town bank acceptances passing through the clearings, has developed into official action by the Boston Clearing House. This body has adopted a resolution protesting against the charge as "being excessive, unnecessary and contrary to the tendency everywhere prevailing to reduce charges for exchange to a minimum." The Boston Clearing House committee is instructed to send a copy of its memorandum to the Federal Reserve Board at Washington, to the governor of the Federal Reserve Bank at Boston and to the chairman of the Clearing House committees at New York, Philadelphia, Chicago and St. Louis and "to take such further action as the members of the Clearing House committee deems best to bring about a change in the regulation above cited."

Federal Reserve Banks

WASHINGTON, Aug. 17.—Discount operations of Federal Reserve banks in the last week were somewhat less than the previous week, bills on hand at the close of business last night amounting to $1,497,000,000 as compared with $1,541,000,000 a week before. Members' reserves increased $44,000,000. The Federal Reserve Board's weekly summary of the banks condition last night follows:

RESOURCES	August 16.	August 9.
Gold coin certificates in vault	$385,017,000	$395,410,000
Gold settlement fund (F. R. Board)	600,083,000	606,854,000
Gold with foreign agencies	5,829,000	9,696,000
Total gold held by banks	$990,929,000	$1,011,460,000
Gold with Federal Reserve agents	961,498,000	940,692,000
Gold redemption fund	40,116,000	38,149,000
Total gold reserves	$1,992,543,000	$1,990,301,000
Legal tender notes, silver, etc	52,980,000	54,222,000
Total reserves	$2,045,523,000	$2,044,523,000
Bills discounted—members	1,285,368,000	1,332,473,000
Bills bought in open market	212,204,000	208,567,000
Total bills on hand	$1,497,572,000	$1,541,030,000
United States government long term securities	31,497,000	34,931,000
United States governm't short term securities	32,546,000	17,404,000
All other earning assets	82,000	102,000
Total earning assets	$1,561,697,000	$1,593,467,000
Uncollected items	623,495,000	584,758,000
Five per cent redemption fund against Federal Reserve Bank notes	866,000	735,000
All other resources	10,803,000	11,410,000
Total resources	$4,242,384,000	$4,234,893,000
LIABILITIES		
Capital paid in	$76,906,000	$76,876,000
Surplus	1,134,000	1,134,000
Government deposits	95,855,000	179,976,000
Due to member banks—Reserve account	1,464,011,000	1,420,705,000
Collection items	461,202,000	433,347,000
Other deposits, including for'n gov't credits	115,234,000	127,050,000
Total gross deposits	$2,136,082,000	$2,161,088,000
Federal Reserve notes in actual circulation	1,985,419,000	1,955,276,000
Federal Reserve Bank notes in circulation, net liability	15,167,000	13,736,000
All other liabilities	27,707,000	26,811,000
Total liabilities	$4,242,384,000	$4,234,893,000

Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 58.5 per cent. Last week 57.9 per cent.

Ratio of gold reserves to Federal Reserve notes in actual circulation after setting aside 35 per cent against net deposit liabilities 76.4 per cent. Last week 76.3 per cent.

Federal Reserve Bank of New York

The weekly statement of Federal Reserve Bank of New York, as of August 16, compared with a week ago, follows:

RESOURCES	August 16.	August 9.
Gold coin and gold certificates:		
Gold in vaults and settlement fund	$459,196,215	$534,660,189
Gold with F. R. agent and in redemption fund—F. R. notes	293,539,415	294,022,815
Gold with foreign agencies	2,010,962	3,345,217
Total gold reserve	$754,746,592	$832,037,222
Legal tender notes, silver certificates and subsidiary coin	43,941,930	44,948,867
Total reserve	$798,688,522	$876,986,029
Bills discounted and bought:		
Rediscounts and advances—Commercial paper	143,857,706	127,000,257
Rediscounts and advances—U. S. obligations	298,207,051	285,454,891
Acceptances bought	112,691,695	113,105,840
Totals	$554,756,453	$525,560,989
Investments:		
United States bonds and notes	20,192,150	5,043,450
U. S. certificates of indebtedness purchased from the banks with agreement to repurchase in fifteen days		
Municipal warrants	50,520	50,520
Totals	$20,242,670	$5,093,970
Due from other Reserve banks		
Total resources	$1,373,687,646	$1,407,641,049
LIABILITIES		
Capital	$19,999,000	$19,988,580
Member banks' deposits (net)	574,120,731	592,696,966
Non-member banks' deposits (net)	3,260,666	3,431,973
Government deposits	7,523,701	25,593,465
Due to other Federal Reserve banks (net)	16,594,716	4,874,057
Due to War Finance Corporation	1,119,508	8,882,419
Federal Reserve notes (net)	640,877,920	638,916,820
Foreign government accounts	103,634,656	107,467,298
Other liabilities	5,907,433	5,193,184
Surplus	649,363	649,363
Total liabilities	$1,373,687,646	$1,407,641,049
Federal Reserve notes outstanding	691,971,650	696,796,960
Against which there is deposited with Federal Reserve agent:		
Gold and lawful money	278,539,415	279,022,815
Commercial paper	554,756,453	525,560,989

New York Clearing House Banks

The actual condition of the member banks, shown by the Clearing House yesterday, with the changes from the preceding week, follows:

Loans, discounts, investments	$4,515,418,000	Dec.	$31,333,000
Cash in vaults of Federal Reserve members	97,191,000	Dec.	2,489,000
Reserve in Federal Reserve Bank	489,122,000	Dec.	10,804,000
Cash in vaults of state banks and trust co.'s	11,540,000	Inc.	424,000
Reserve in depositories	8,222,000	Inc.	571,000
*Net demand deposits	3,611,636,000	Inc.	5,974,000
Net time deposits	161,814,000	Inc.	2,910,000
Circulation	35,593,000	Dec.	143,000
Aggregate reserve	508,884,000	Dec.	9,809,000
Excess reserve	30,074,080	Dec.	10,765,300

*United States deposits deducted, $442,949,000.

Allied Powers of War Endurance Without Limitations Save Those Imposed by Unsound Financing

With America's Vast Resources Thrown In, Conflict Could Be Carried On for Centuries Without Danger of Economic or Industrial Exhaustion if the Nation Would Abandon Present Improvident Methods of Credit Jugglery

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THE debt of England is now nearing $40,000,000,000—$1,000 per capita, $5,000 per family. This, however, need not mean that England has now become a poor nation or even is on the way to become a poor nation. In the main, the English debt is held in England. The aggregate wealth of a country is neither the less nor the greater because of domestic debt relations. It is only with respect to the ownership of its existing wealth and to the distribution of its future income that the volume of indebtedness is significant. For every debit there is a credit. Cancel the debt, and as much as the debtors are richer the creditors are poorer. Increase it, and as much as the creditors are the richer the debtors are the poorer. In a national accountancy these items of domestic debt are neutral items. In an inventory of national wealth they cancel out.

Nor in any other aspect of wealth need war mean national poverty. Rarely does war seriously diminish wealth. The lands of England are still there, unwasted and unworn; its factories wanting nothing in equipment, its warehouses nothing in goods, its dwelling houses undecayed, its railroads intact and with ample rolling stock. At any rate, deterioration can hardly be appreciable, and if appreciable can hardly be serious. The war toll of life has been heavy. But this means that the rate of loss in life has far outrun the rate of loss in wealth. Stated in terms of per capita wealth, England may to-day be richer than before the war, rather than poorer.

Redistribution, Not Exhaustion

How, then, can England a year ago have been approaching, or be now approaching, war exhaustion? It may be easy, no doubt, for any one man to lose his wealth—the heir to dissipate his estate, the borrower to become insolvent. But what one man loses to another's gain does not impoverish the realm. So, again, it may be easy for any one individual to consume more than his income and be compelled to dispose of his property. But the main effect of this is merely to redistribute the property. Speaking in the large, the prodigal consumption of one merely displaces the consumption of others; and these others, as their indemnity, come into possession of the prodigal's estate.

And as with any individual in a society, so with any one nation among nations. One country may get into debt to another. Or, instead of issuing obligations against its existing wealth or its future income, one country may sell out to another the titles of proprietorship to its domestic wealth or to its wealth of foreign investment. But nothing of this involves any change in the total of world wealth, but only a redistribution of it in point of ownership.

England has, no doubt, grievously diminished its patrimony, not only by the sale of war bonds in America, but still more by marketing enormous holdings of international securities in America. And note also that all these sales of securities in America by which England is so much the poorer relatively to America have gone none the less to swell the government debt to individual investors in England, the debt on which the taxpayer must make good the interest burden. The investors are no poorer, but only different. They now hold English consols in place of the securities that have been marketed abroad to furnish England with purchasing power here. By marketing its new issues of consols here, or by selling here the securities purchased in England by consols marketed here, England has supplied itself with American goods far in excess of what English exports of products would buy—an export of obligations and titles rather than of products. Instead, therefore, of its old position of creditor abroad or of owner abroad, England has been moving toward the status of a debtor nation.

What England Lost America Gained

But all this is only for that share of England's war needs that has had to be financed abroad. In the main, England's industries and England's current income of products, rather than England's accrued wealth or foreign credit, have financed its war. Only to the extent, then, that bonds have had to be sold abroad or securities marketed abroad is England now the poorer for its four years of stupendous effort. And even so far as England has been compelled to sacrifice its patrimony, no serious reduction of wealth has taken place. As rapidly as England had been growing poorer in the process America has been growing richer. The aggregate resources of the two countries remain substantially unimpaired. The war has been financed out of current income on terms of the sacrifices and privations made necessary in civil consumption, not in any considerable part through the deterioration or the consumption of the existing stores of wealth. Taken as a whole, the Entente has not been nearing economic exhaustion, is not now nearing it, never need near it in the future, and only by gross blundering can ever near it.

The fact is that in the large and in the purely industrial aspect war has only a present tense. Any one country, it is true, can sell its present accumulations of wealth held over from the past to the end of obtaining a present increase of war supplies, or may mortgage abroad its future income in order to obtain the assignment of present product to it. But none the less is it clear that in the main only present product can be consumed in the present. Future bread cannot be eaten now, or future cannon loaded now, or future powder exploded now, any more than future men can man the trenches now. Nor in the main can the products of the past supply the needs of the present. Few of these products will keep, and most of them that will keep are not available for war purposes. We cannot eat or wear or explode lands, or houses, or factories, or machines. Most of these forms of wealth avail for present needs, not as themselves fit for consumption, but as rendering incomes of consumable products. For the world as a whole, and especially for a world at war, the things of the past equally with the things of the future are not at the disposal of present needs. True, some degree of wear-out or deterioration is possible; but it cannot be allowed to proceed far and cannot count for much.

Present Income All That Counts

So again, a country may, in some slight measure, have prepared for war by storing war bread or by making accumulations of armament and munitions. But these can last only for the early beginnings. In the large, it still holds that neither the products of the past nor the products of the future but only the present incomes of product can support a present war. Society as a whole has to live off its current income.

It is, in short, a profound misunderstanding to suppose that war can destroy much wealth or make any serious inroads on wealth. It destroys income—subtracts men from current production and absorbs in military uses much of the current product that else would serve for civil consumption. Only in the sense of preventing an increase of wealth or of the limited degree in which it prompts to deterioration or wear-out or tempts to some degree of incidental or wanton ravage can war subtract from the present sum of human possessions. Its chief significance, clearly, is in its encroachments on present consumption for ordinary needs. The privations that war imposes have to be borne now—present hardship, not past or future hardship. It is not only through the lack of farms or textile machines that we suffer now, but only through the lack of current crops against food, or current textiles against cold. In truth, the improvidence of deterioration, in whatever degree it is possible and is permitted, is in its prompt reaction to limit correct income.

Men Not Wealth, But Owners of It

War consumes men, no doubt, and at a frightful rate. But the men are not a part of the existing wealth; they are the owners of it. It is, indeed, not incredible that with the through casualty massacre and famine, the world is to-day even richer per capita than it was four years ago.

All these war burdens mean, then, substantially nothing in terms of their effect on the sum of existing wealth, either for increase or for decrease. But they mean much for the distribution of the ownership of existing wealth and still more for the distribution of the future income from wealth and from human labor. The children of some of us must pay interest to the children of others of us. The bonds are obligations of the people in general to the bondholders. By virtue of holding these incumbrances on the future revenues of the government—revenues which are to be collected partly out of future property incomes and partly out of future incomes from human effort—the investing classes are holders of mortgages on the wealth and on the man power of the country.

It is no part of the immediate task to inquire how far the issue of these bonds is well or ill, fair or unfair, necessary or gratuitous, in the policies of war finance. There are men enough to believe that, having to get the funds somehow, we could get them in no other way—that how much we can collect from the citizen depends not on what share of his income he can spare above his necessities, but rather on the nature of the slip of paper that he receives in settlement of his payment, whether it be a receipt or a promise, refers to past or future, evidences release from obligation or acquirement of obligation.

Bonds and Endurance

The question of immediate interest, however, is quite another. What do these bonds mean to any nation for purposes of war endurance? In purely economic and industrial aspects, war needs not carry with it any menace of exhaustion. Man power may be lacking to go overseas to the firing line, or man power may be lacking at home to maintain the soldiers on the firing line. More men may be called to the colors than the civil population can maintain. In any of these ways economic débâcle may befall. But never need it be a question of the progressive sapping of the property resources of any country that must rely or does rely on its own productive powers. Economic exhaustion, wealth exhaustion, is one thing—financial exhaustion another and a quite distinct thing, no matter how constantly they may get confused. The Entente is not now nearing economic exhaustion, and need never near it. The warring countries are safe from seriously compromising themselves in point of wealth—for the sole and sufficient reason that they cannot.

The Limits Of War Effort

But they are in serious danger of using up their credit—precisely because they can. Tempted by the delusive ease of credit extension, we may engage ourselves in efforts and undertakings disastrously beyond our powers of maintenance and performance. Economic power has economic limits. Two million men are costing us now—with our other tasks—eighteen billions a year, $9,000 per man; and yet, with fifty billions of annual national income, we are talking of placing 10,000,000 men in the field and of serving at the same time as base of supplies for our associate nations in the war. Again it is proposed to be floated so many bonds that it will be impossible to float more. We may reach political upheaval by imposing sacrifices excessive in degree, through their improvident or intolerable of

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